



MINUTES OF THE BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES, STATE OF CALIFORNIA

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42-B

Tyler McCauley, Auditor-Controller, gave a brief presentation regarding fraud in Los Angeles County government, as discussed in the attached August 25, 2003 Daily News article.

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Attachment

August 26, 2003

Cheaters prospering

Employees, residents defraud county for as much as \$1 billion a year

By **Troy Anderson** STAFF WRITER

Daily News

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Los Angeles County government loses huge sums of money -- perhaps as much as \$1 billion a year, according to one statistical model -- because of fraud, waste and corruption, and officials concede they are making scant progress against the problem.

As massive budget cuts this year forced the county to release jail inmates early and close hospitals and health clinics, critics say the county could have avoided the deepest cuts by cracking down on fraud which ranges from welfare cheaters to county employees running private businesses or working a second job during office hours.

"It sounds to me like they are just scratching the surface, given the size of the (\$16.7 billion) county budget," said Jon Coupal, president of the Howard Jarvis Taxpayers Association. "I think it's far more widespread than people realize."

The county's 189 welfare fraud investigators detect between \$14 million to \$19 million a year in overpayments and fraud.

The county also has nine "fraud cops" who catch some of the county's 85,000 employees and county contractors costing \$3 million to \$4 million a year through various forms of fraud and theft -- from timecard forgery, kickbacks and taking bribes to stealing county funds and computers, nepotism and employees who drive county vehicles after hours.

At the same time, the District Attorney's workers' compensation fraud division, with 14 prosecutors and investigators, collected \$2.1 million in restitution last year and arrested six county employees.

Marion Romeis, chief investigator in the Auditor-Controller's special investigation office, said the

\$3 million to \$4 million a year in fraud identified by her unit does not include "substantial" losses resulting from lost productivity, including serious time abuse, employees viewing pornography or gambling on the Internet and other abuses of county work hours and equipment.

"When you look at nationwide figures, white-collar crime involves hundreds of billions of dollars," Romeis said. "Southern California is the white-collar crime capital of the world, and there is no reason to assume county government is any different than the private sector."

Based on a survey last year of 663 certified fraud examiners in business and government, the Austin, Texas-based Association of Certified Fraud Examiners estimated that 6 percent of the nation's revenues were lost due to occupational fraud and abuse.

John Warren, associate general counsel of the association, said that, based on the county's \$16.7 billion budget, it was reasonable to assume the county loses \$1 billion a year to fraud, waste and similar abuse.

"I think it's fair to draw that conclusion," Warren said. "This is just an opinion of fraud examiners. But their opinion does carry weight because they are experts in fraud detection. I would say it's safe to assume if (county officials) are catching \$3 (million) to \$4 million a year in fraud, there is a significantly larger amount that they are not catching."

The association has 28,000 members, including certified fraud examiners, auditors, accountants, investigators, lawyers and loss-prevention specialists.

County Auditor-Controller Tyler McCauley said his 400-plus employees, including 75 auditors, are not able to detect all the abuse and waste of county funds by contractors and employees.

"A billion dollars appeared to me to be a high estimate," McCauley said. "However, we are aware, based on statistics, that the incidence of fraud and abuse is larger than we are able to

identify, and we're doing our best effort through our hot line and other means to keep it down. ... We do know that we are not catching it all."

The California Taxpayers Association recently reviewed published articles and government audits, and the group's president said that the review revealed \$10 billion in waste, fraud, questionable spending and contract overruns in schools and local and state government agencies statewide.

CTA chief Larry McCarthy said the county should probably have more than nine fraud investigators.

"Los Angeles County and other agencies are distinguishing themselves with high levels of fraud and misspending," McCarthy said. "The county and other public agencies would do well to strategically focus on stopping this assault on taxpayers.

"Sound financial management demands that the county work to stop the rip-off before it takes place. Managers must tighten up the processes and improve financial management so that tax dollars are used efficiently to fund essential services. Finding the fraud after it happens is a fall-back objective after failing to get the dollars where they are intended and needed."

Luther Evans, director of the Welfare Fraud Prevention and Investigations Section at the county Department of Public Social Services, said his 189 investigators detected about \$15 million in welfare and food-stamp overpayments in the fiscal year that ended June 30, down from \$19.3 million in the previous year.

Romeis' team of nine "fraud cops" opened 1,089 investigations since 2000 based on tips to the county's fraud hot line -- (800) 544-6861 -- or referrals from county departments.

"It's anything you can think of -- improper promotions, misuse of equipment, computer thefts, contractor overbillings and theft, copyright violations and identity theft," Romeis said.

Still, only seven employees were sentenced to jail or prison and six placed on probation since 2000. In addition, 37 employees were dismissed, 22 resigned, 24 were suspended, 8 transferred,

11 reprimanded or given written warnings and 34 were counseled.

Romeis said a half-dozen cases involving county employees and contractors were recently referred for prosecution.

"Since its inception, we have detected millions of dollars in overpayments in welfare and other types of fraud," said Supervisor Michael D. Antonovich, who sponsored the motion creating the hot line. "When you consider the large number of employees we have and the total number that have been exposed, it's a small element that commit fraud.

"I would say that's a credit to our work force, but we need to do a better analysis of those who were apprehended to ensure our hiring practices only get the best employees who are honest, with integrity and good character."

EXAMPLES OF COUNTY FRAUD

Investigators and "fraud cops" are cracking down on the waste and corruption that costs Los Angeles County taxpayers an estimated \$1 billion a year. Here are some of the problems they've encountered:

■ Los Angeles County employees viewed pornography, online gambling and other inappropriate Web sites 90 percent of the time they accessed the Internet during one week in 2002, investigators say. The county is in the process of installing filtering software to combat the problem.

"We've had several cases where people are running their own Web sites on our servers with anything from hosting pornography-related Web sites to running a Russian-bride type of service," said Supervising Investigator Kris Kademian.

■ A Department of Mental Health worker racked up a \$97,923 bill calling a psychic hotline. She was sentenced to 30 days in jail, placed on five years' probation and ordered to repay the money.

■ Fire Department warehouse workers in Pacoima were allowed by their supervisors to take two to 12 scooters each that had been donated as Christmas toys for needy children.

■ An employee in the Registrar-Recorder's Office was sentenced to a year in jail for stealing \$74,213 from

a cash register through voided transactions.

■ An employee used a payroll computer to add benefits she was not entitled to and inflated her last paycheck before she retired, resulting in a \$42,433 overpayment.

■ Former county planner Emmett Taylor, 65, was arrested last year on 97 counts of forgery and falsification of public records in an alleged land fraud case that cost the county hundreds of thousands of dollars to correct. Taylor pleaded not guilty to the charges, and a preliminary hearing is set for Sept. 3.

■ Two probation department employees mismanaged funds for a department picnic, resulting in a \$29,953 shortage.

■ In a half-dozen cases, Children's Services workers stole thousands of bus tokens intended for use by foster children and their parents.

■ A Natural History Museum employee authorized the sale last year of a donated bus to another employee at a substantial discount. The converted bus was then resold at a \$2,500 profit to the employee.

■ An Arcadia dentist who worked for juvenile health services was sentenced to three years' probation for falsifying his timecards, indicating he was working at county clinics when he was really working in private practice.